

Various South Africa-Based Insurers Downgraded Following Sovereign Downgrade; National Scale Ratings Affirmed

May 4, 2020

- On April 29, 2020, we lowered our foreign currency sovereign rating on South Africa to 'BB-' from 'BB' and our local currency sovereign rating to 'BB' from 'BB+'. The outlook is stable.
- The deteriorating economic conditions in South Africa are likely to weigh on the domestic insurance sector's growth and earnings prospects and on asset quality.
- We are therefore lowering our global scale ratings on several South Africa-based insurers. The outlooks are stable.
- We use our South Africa national scale ratings to measure the insurers' creditworthiness relative to each other and other South African corporations that have a national scale rating. We consider that relative creditworthiness remains largely unchanged.
- We are therefore affirming all national scale ratings on the insurers, based on the revised mapping table for South Africa's national scale ratings following the sovereign downgrade.

LONDON (S&P Global Ratings) May 4, 2020--S&P Global Ratings today took various rating actions on several insurance groups exposed to the South African market following the downgrade of South Africa (see table 1). Following this rating action, we also revised the mapping of the South Africa national scale ratings to recalibrate them. We consider that the creditworthiness of the insurers, relative to each other and other corporations that have a South Africa national scale rating, remains largely unchanged.

Table 1

Summary Of South African Insurers Rating Actions

Entity	Global Scale Ratings§	National Scale Ratings
AIIG Life South Africa Ltd.	Lowered to 'BB'	Affirmed 'zaAAA'
AIIG South Africa Ltd.	Lowered to 'BB'	Affirmed 'zaAAA'
Allianz Global Corporate and Specialty South Africa Ltd.	Lowered to 'BB+'	Affirmed 'zaAAA'
Liberty Group Ltd.		Affirmed 'zaAAA'/'zaA-1+'
Old Mutual Life Assurance Co. (South Africa) Ltd.	Lowered to 'BB'	Affirmed 'zaAAA'/'zaA-1+'
Old Mutual Ltd.		Affirmed 'zaA+'/'zaA-1'
Sanlam Capital Markets Proprietary Ltd.		Affirmed 'zaAA'/'zaA-1+'

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Table 1

Summary Of South African Insurers Rating Actions (cont.)

Entity	Global Scale Ratings§	National Scale Ratings
Sanlam Life Insurance Ltd.		Affirmed 'zaAAA'
Sanlam Ltd.		Affirmed 'zaA+'
Santam Ltd.	Lowered to 'BB'	Affirmed 'zaAAA'
Santam Structured Insurance Ltd.*	Lowered to 'BB-'	Affirmed 'zaAA'
Santam Structured Reinsurance DAC*	Lowered to 'BB-'	
Santam Structured Reinsurance Ltd. PCC*	Lowered to 'BB-'	
Issue Credit Ratings		
Subordinated Deferrable - Liberty		Affirmed 'zaA+'
Subordinated Nondeferrable - Liberty		Affirmed 'zaAA'
Subordinated Deferrable - OMLACSA		Affirmed 'zaA+'
Subordinated Deferrable - Sanlam Life Insurance Ltd.		Affirmed 'zaA+'
Subordinated Deferrable - Santam Ltd.		Affirmed 'zaA+'

*These three Santam structured entities are collectively known as Santam SI Investments. §All outlooks are Stable.

Extended measures to contain the COVID-19 pandemic are pushing the world into the deepest recession since the Great Depression. In South Africa, we now expect real GDP to shrink by 4.5% for year-end 2020 and increase by 3.5% in 2021. The country faces a high unemployment rate (about 30%), increased foreign exchange risk as the South African rand (ZAR) weakens further against major trading currencies, a drop in equity markets, and increasing credit risk. The insurance sector is generally well-capitalized and better prepared for the shocks to the financial markets that we saw during March. This is because the local risk-based solvency regime encouraged enhancements to risk management practices. However, insurers are not unaffected by the longer-term economic implications for South Africa, given their significant exposure to the local economy. We therefore anticipate that the sector's top line, earnings prospects, and asset quality will all come under pressure. Although claims may increase, we do not expect losses on the claims side to be material.

Company-Specific Rationales

Old Mutual Life Assurance Co. (South Africa) Ltd. (OMLACSA) and Old Mutual Ltd. (OML)

We lowered our global scale rating on OMLACSA to 'BB' from 'BB+' following the sovereign downgrade. We rate OMLACSA one notch above the foreign currency rating on the sovereign because we consider that its largely loss-absorbing liability profile would allow it to withstand the stress associated with a foreign currency sovereign default. We affirmed the South Africa national scale ratings on OML and OMLACSA at 'zaA+'/'zaA-1' and 'zaAAA'/'zaA-1+', respectively.

Sanlam Life Insurance Ltd. (Sanlam Life) and Liberty Group Ltd.

We affirmed the national scale ratings on these entities at 'zaAAA', in line with the national scale rating on the sovereign. In our view, their largely loss-absorbing liability profiles would allow them to withstand the stress associated with a foreign currency sovereign default, similar to OMLACSA.

Sanlam Capital Markets Proprietary Ltd. (SCM)

We affirmed our national scale ratings on SCM at 'zaAA'. We consider SCM to be highly strategic to the Sanlam group and therefore derive its ratings from the Sanlam group.

Sanlam Ltd. (NOHC)

We affirmed the national scale rating on Sanlam Ltd. to 'zaA+', reflecting the structural subordination that comes from its NOHC status.

Santam Ltd (Santam) and Santam SI Investments' (Santam SI) core operating subsidiaries

We lowered our global scale ratings on South African insurer Santam Ltd. to 'BB' from 'BB+' and affirmed our national scale ratings at 'zaAAA'. We rate Santam Ltd. above the 'BB-' foreign currency sovereign ratings on South Africa. This is because we think that Santam Ltd. would be able to withstand the stress associated with a South African default on its foreign currency obligations, based on the insurer's asset allocation and regulatory capital base. We assume that group capital funds are fully fungible through the group and could be used in the event of capital stress. Our view is also supported by Santam Ltd.'s execution of its credible and board-approved risk mitigation plan.

Our assessment of Santam is supported by the insurer's dominant and long-standing position in its domestic market, sustained by its strong brand name, and strong earnings and resilient operating performance. Further influencing our view is Santam's leading position in several business lines, sustained by innovation and strong risk framework. However, Santam has expanded its balance sheet through acquisition and investment activity, causing its risk-based capital levels, as measured by our model, to be relatively weak for the current rating. We see a risk that further financial market volatility could place capital and earnings under pressure.

We lowered our global scale rating on Santam SI Investments' (Santam SI) core operating subsidiaries: Santam Structured Insurance Ltd., Santam Structured Reinsurance Ltd. PCC, and Santam Structured Reinsurance DAC to 'BB-' from 'BB' and affirmed our national scale rating on Santam Structured Insurance Ltd. at 'zaAA'.

We continue to regard Santam SI Investments as a highly strategic subgroup of the Santam group. Therefore, our global ratings on it are typically one notch below those on the group's core operating entity, Santam Ltd.

Impact of South Africa's local currency ratings on Santam, OMLACSA, Liberty Group, and Sanlam Life

We limit our ratings on these players at the level of the local currency rating on South Africa because, in our view, their asset and liability concentration in the domestic economy makes them susceptible to the financial and macroeconomic stresses associated with a local currency sovereign default.

Issue ratings

We affirmed our national scale ratings on the deferrable subordinated debt issued by Santam, Liberty, OMLACSA, and Sanlam Life. Under our methodology for rating such issues, we apply a one-notch downward adjustment to the global scale rating on an issuer to take into account the coupon payment risk on the debt and then derive the national scale rating using our mapping. The 'zaAA' national scale rating captures both the payment risk and the issuers' stable credit profiles. We then deduct another two notches from the resulting national scale rating to reflect the subordination. As a result, for Santam, Liberty, OMLACSA, and Sanlam Life, we continue to rate the deferrable subordinated notes four notches below our 'zaAAA' national scale rating. Liberty's nondeferrable notes are rated 'zaAA', two notches below our 'zaAAA' national scale rating on Liberty Group, to reflect subordination.

AIG South Africa Ltd. & AIG Life South Africa Ltd. (Collectively known as AIG SA)

We have lowered our global scale ratings on these AIG entities to 'BB' from 'BB+' and affirmed our 'zaAAA' national scale ratings.

AIG SA's strong capital position and liquid assets allow it to withstand the stress associated with our foreign currency sovereign default scenario. Consequently, we rate AIG SA above our foreign currency rating on South Africa, as we believe the insurer is unlikely to default on its insurance liabilities in the event of a foreign currency default by South Africa. However, we limit our ratings on AIG SA at the level of the local currency rating on South Africa. We believe that AIG SA is unlikely to sustainably withstand a local currency default by South Africa, considering its asset and liability concentration in the domestic economy, relative to its regulatory capital position.

We still view AIG SA as strategically important to the wider AIG group. We could assign up to three notches of uplift to reflect group support, up to the level of the local currency sovereign rating. In AIG SA's case, group support does not lead to a rating uplift because its stand-alone characteristics are sufficient enough for it to be rated at the same level as the local currency ratings on South Africa.

Allianz Global Corporate And Specialty South Africa Ltd. (AGCSSA)

We lowered our ratings on AGCSSA to 'BB+' from 'BBB-' and affirmed our national scale ratings at 'zaAAA'. We consider Allianz willing and able to support AGCSSA if South Africa comes under stress, especially because we consider it to be highly strategic to Allianz. AGCSSA is relatively small compared with the group as a whole, and we anticipate that Allianz would want to mitigate any hypothetical solvency issues at its entities, to avoid potential reputational issues for the whole group. We therefore rate AGCSSA two notches above the foreign currency rating on South Africa, in line with our criteria for rating above the sovereign.

Outlooks

AIG SA, AGCSSA, OMLACSA, Santam, And Santam SI Group

The stable outlook on these entities mirrors our stable outlook on the sovereign. Over the next 12

months, the most likely trigger for further rating actions, positive or negative, would be a similar action on the sovereign.

For Santam, we could also lower the rating if it were to fail our sovereign stress test and we see signs that it is not executing its risk-mitigation plan, or if the insurer's capital and earnings were to weaken below the current levels.

The stable outlook on Santam SI Investments is also driven by the outlook on Santam because the ratings are linked; we consider Santam SI Investments to be highly strategic to the Santam group.

Our national scale ratings have no outlooks. That said, any rating action on the global scale sovereign rating on South Africa could have a multiple-notch effect on our national scale ratings.

Rating Score Snapshots

Santam Ltd.

Business Risk Profile	Satisfactory
Competitive position	Strong
IICRA	Moderately High
Financial Risk Profile	Fair
Capital and earnings	Fair
Risk exposure	Moderately Low
Funding structure	Neutral
Anchor*	bbb-

Modifiers

Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Financial Strength Rating	BB/Stable

AIG South Africa Ltd.

Business Risk Profile	Fair
Competitive position	Satisfactory
IICRA	Moderately High
Financial Risk Profile	Fair
Capital and earnings	Satisfactory
Risk exposure	Moderately High
Funding structure	Neutral
Anchor	bb+

Modifiers

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	BB/Stable

Rating Score Snapshots (cont.)

Old Mutual Life Assurance Co. (South Africa) Ltd.

Business Risk Profile	Satisfactory
Competitive position	Strong
IICRA	Moderately High
Financial Risk Profile	Fair
Capital and earnings	Satisfactory
Risk exposure	Moderately High
Funding structure	Neutral
Anchor	bbb-
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	BB/Stable

IICRA--Insurance industry and country risk assessment.

*Influencing this is our view of Santam's leading competitive position in South Africa, sustained by innovation and strong risk framework. Diluted by relatively weak risk based capital levels for the current rating. We have lowered the anchor to 'bbb-' from 'bbb'.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Bonitas Medical Fund 'zaA+' South Africa National Scale Rating Placed On Watch Developing, May 4, 2020

Various South Africa-Based Insurers Downgraded Following Sovereign Downgrade; National Scale Ratings Affirmed

- South Africa Ratings Lowered To 'BB-' From 'BB' As COVID-19 Further Impairs Fiscal And Growth Prospects; Outlook Stable, April 29, 2020
- South Africa National Scale Mapping Revised Following Sovereign Downgrade, April 29, 2020
- Global Credit Conditions: Rising Credit Pressures Amid Deeper Recession, Uncertain Recovery Path, April 22, 2020

Ratings List

Downgraded; Outlook Action

	To	From
Allianz Global Corporate and Specialty South Africa Ltd.		
Issuer Credit Rating		
Local Currency	BB+/Stable/--	BBB-/Negative/--
Financial Strength Rating		
Local Currency	BB+/Stable/--	BBB-/Negative/--

Ratings Affirmed

Allianz Global Corporate and Specialty South Africa Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaAAA/--/--	

Downgraded; Outlook Action

	To	From
AIG Life South Africa Ltd.		
AIG South Africa Ltd.		
Issuer Credit Rating		
Local Currency	BB/Stable/--	BB+/Negative/--
Financial Strength Rating		
Local Currency	BB/Stable/--	BB+/Negative/--

Ratings Affirmed

AIG Life South Africa Ltd.		
AIG South Africa Ltd.		
Issuer Credit Rating		
South Africa National Scale	zaAAA/--/--	

Downgraded; Outlook Action

	To	From
Old Mutual Life Assurance Co. (South Africa) Ltd.		
Issuer Credit Rating		
Local Currency	BB/Stable/--	BB+/Negative/--
Financial Strength Rating		
Local Currency	BB/Stable/--	BB+/Negative/--

Various South Africa-Based Insurers Downgraded Following Sovereign Downgrade; National Scale Ratings Affirmed

Ratings Affirmed

Old Mutual Ltd.

Issuer Credit Rating

South Africa National Scale zaA+/-/zaA-1

Old Mutual Life Assurance Co. (South Africa) Ltd.

Issuer Credit Rating

South Africa National Scale zaAAA/-/zaA-1+

Old Mutual Life Assurance Co. (South Africa) Ltd.

Subordinated zaA+

Downgraded; Outlook Action

	To	From
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Santam Ltd.

Issuer Credit Rating

Local Currency	BB/Stable/--	BB+/Negative/--
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Financial Strength Rating

Local Currency	BB-/Stable/--	BB+/Negative/--
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Santam Structured Insurance Ltd.

Santam Structured Reinsurance Ltd. PCC

Santam Structured Reinsurance DAC

Issuer Credit Rating

Local Currency	BB-/Stable/--	BB/Negative/--
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Financial Strength Rating

Local Currency	BB-/Stable/--	BB/Negative/--
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Ratings Affirmed

Sanlam Capital Markets Proprietary Ltd.

Issuer Credit Rating

South Africa National Scale zaAA/-/zaA-1+

Sanlam Ltd.

Issuer Credit Rating

South Africa National Scale zaA+/-/--

Santam Ltd.

Sanlam Life Insurance Ltd.

Issuer Credit Rating

South Africa National Scale zaAAA/-/--

Santam Structured Insurance Ltd.

Financial Strength Rating

Local Currency	zaAA/-/--
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Santam Ltd.

Subordinated zaA+

Sanlam Life Insurance Ltd.

Subordinated	zaA+
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Ratings Affirmed

Liberty Group Ltd.

Issuer Credit Rating	
South Africa National Scale	zaAAA/--/zaA-1+

Liberty Group Ltd.

Subordinated	zaA+
Subordinated	zaAA

Regulatory Disclosures

Liberty Group Ltd.

- Primary Credit Analyst: Trevor Barsdorf, Associate Director
- Rating Committee Chairperson: Johannes Bender
- Date initial rating assigned: Feb. 18, 2016
- Date of previous review: Nov. 26, 2019

Allianz Global Corporate and Specialty South Africa Ltd.

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- Date initial rating assigned: Aug. 14, 2014
- Date of previous review: Nov. 26, 2019

AIG South Africa Ltd.

- Primary Credit Analyst: Trevor Barsdorf, Associate Director
- Rating Committee Chairperson: Johannes Bender
- Date initial rating assigned: Oct. 14, 2013
- Date of previous review: Nov. 26, 2019

AIG Life South Africa Ltd.

- Primary Credit Analyst: Trevor Barsdorf, Associate Director
- Rating Committee Chairperson: Johannes Bender

- Date initial rating assigned: Oct. 14, 2013
- Date of previous review: Nov. 26, 2019

Sanlam Capital Markets Proprietary Ltd.

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- Date initial rating assigned: Feb. 25, 2016
- Date of previous review: Feb. 26, 2020

Santam Ltd.

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- Date initial rating assigned: Oct. 10, 2012
- Date of previous review: Nov. 26, 2019

Santam Structured Insurance Ltd.

- Primary Credit Analyst: Trevor Barsdorf, Associate Director
- Rating Committee Chairperson: Johannes Bender
- Date initial rating assigned: May 24, 2017
- Date of previous review: Nov. 26, 2019

Santam Structured Reinsurance DAC

- Primary Credit Analyst: Trevor Barsdorf, Associate Director
- Rating Committee Chairperson: Johannes Bender
- Date initial rating assigned: May 24, 2017
- Date of previous review: Nov. 26, 2019

Santam Structured Reinsurance Ltd. PCC

- Primary Credit Analyst: Trevor Barsdorf, Associate Director
- Rating Committee Chairperson: Johannes Bender
- Date initial rating assigned: May 24, 2017
- Date of previous review: Nov. 26, 2019

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Glossary

- Date initial rating assigned: The date S&P Global Rating's assigned the long-term foreign currency issuer credit rating on the entity.
- Date of previous review: The date S&P Global Rating's last reviewed the credit rating on the entity.
- Financial strength rating (FSR): A forward-looking opinion about the financial security characteristics of an insurer with respect to its ability to pay under its insurance policies and contracts, in accordance with their terms.
- Issuer credit rating (ICR): A forward-looking opinion about an obligor's overall creditworthiness, focusing on its capacity and willingness to meet its financial obligations in full and as they come due.
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Various South Africa-Based Insurers Downgraded Following Sovereign Downgrade; National Scale Ratings Affirmed

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